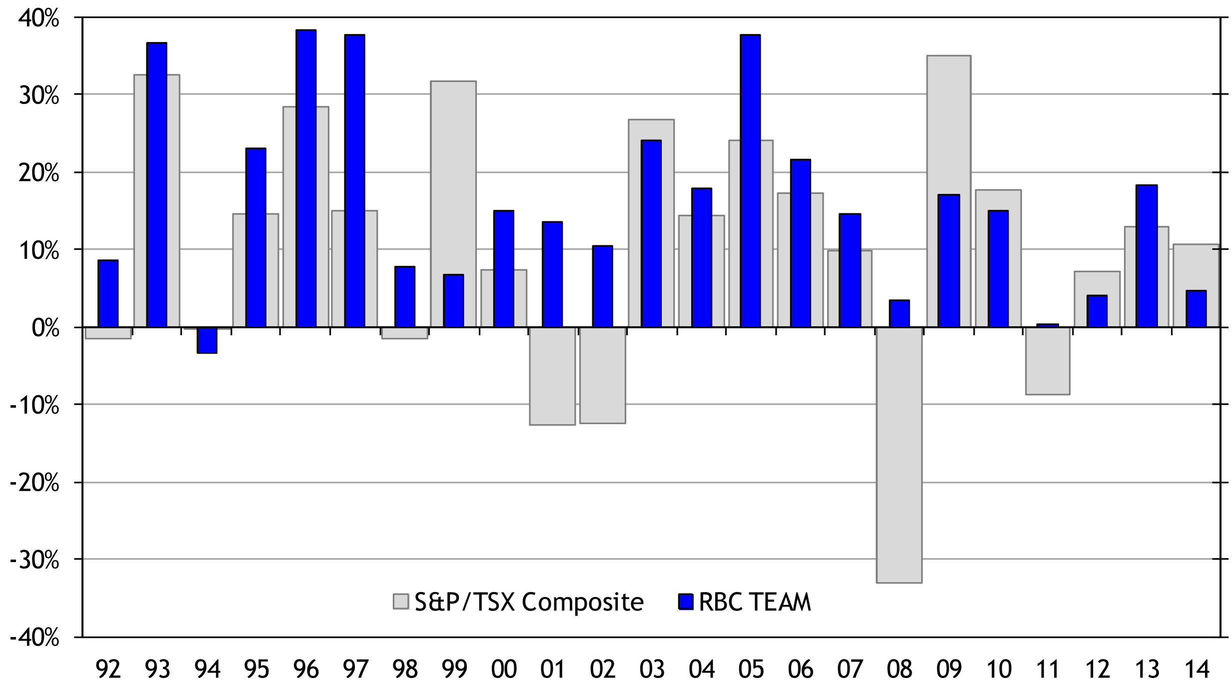
April 13th 2015

"Won2One" with Nick Foglietta

Tactical Equity Income Model Portfolio Record



Tactical Equity Income Model Present Conditions:

TEAM Model Asset Allocation:	**50%** Equities/ **50%** Fixed Income
S&P/TSX 60 Closing Value:	15,388
TSX 200 Day Moving Ave:	14,922
% Above/Below 200 Day Moving Ave:	**3.03%**

Levels for change: 100% stocks - **TSX 15,668** and 100% fixed income – **TSX 14,176**

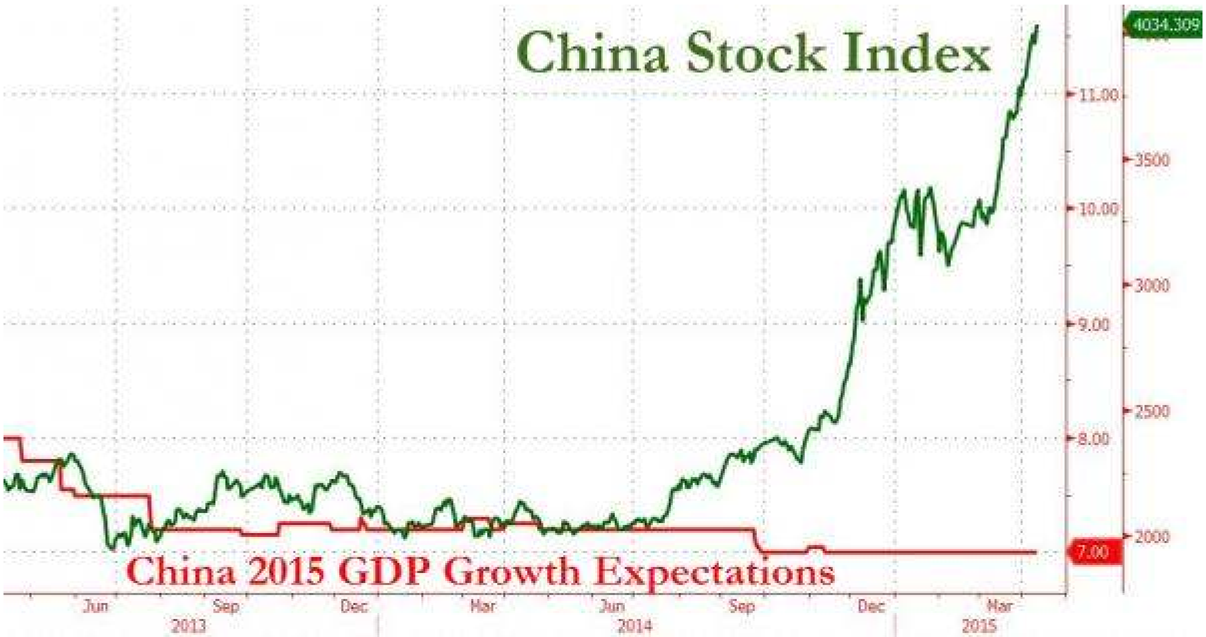
Weekly Quote

"Everyday Americans need a champion. And I want to be that champion, so I'm hitting the road to earn your vote." – Hillary Clinton, April 12th announcing her Presidential aspirations

Nick comment: If this is the everyday Americans best hope? Wow!

Extreme Moves in Asset Prices

Last week saw some incredible price moves in overseas stock markets. These moves are coming against the backdrop of a torrent of bad economic news in Asia. Let me show you just one graph of the Chinese stock market vs. Chinese GDP data.



Stock prices have doubled in China in 8 months! They have doubled while the Chinese real estate market continues to weaken and export volumes are plummeting.

Cheap money is sloshing around the world and hunting for anywhere it can find a climbing asset class.

My reason for pointing out the disconnect of asset pricing and economic activity is this week I am doing my quarterly “report card” back to my annual forecast. (You can read the entire 2015 Forecast on my website still.)

Once upon a time, when forecasting, we used to look at economic expectations and try to use those to extrapolate asset pricing….

Well, that appears to be a rather futile endeavor at this point in time.

That said I have always posted a quarterly “report card”.

Feel free to write back any feedback you may have.

Review of 2015 Forecast

The main question and theme I set out for 2015 was; **are you a "buy and hold" investor…or are you a "tactical investor?"** Nothing has happened to change the importance of answering that question!

The extremes we started out the year with are all still with us: (from page one of my 2015 forecast)

1. Never have stock prices been as high as they are today on a nominal basis. (Stocks have only been this expensive once before in history when using more fundamental metrics of value – in 2000)
2. Never in history have global interest rates been this low.
3. Never has there been more cash floating around the world getting zero rate of return…and now sometimes a negative rate of return.
4. Never has there been more global debt.

What has changed dramatically is the expected "lift off" of interest rates in the US.

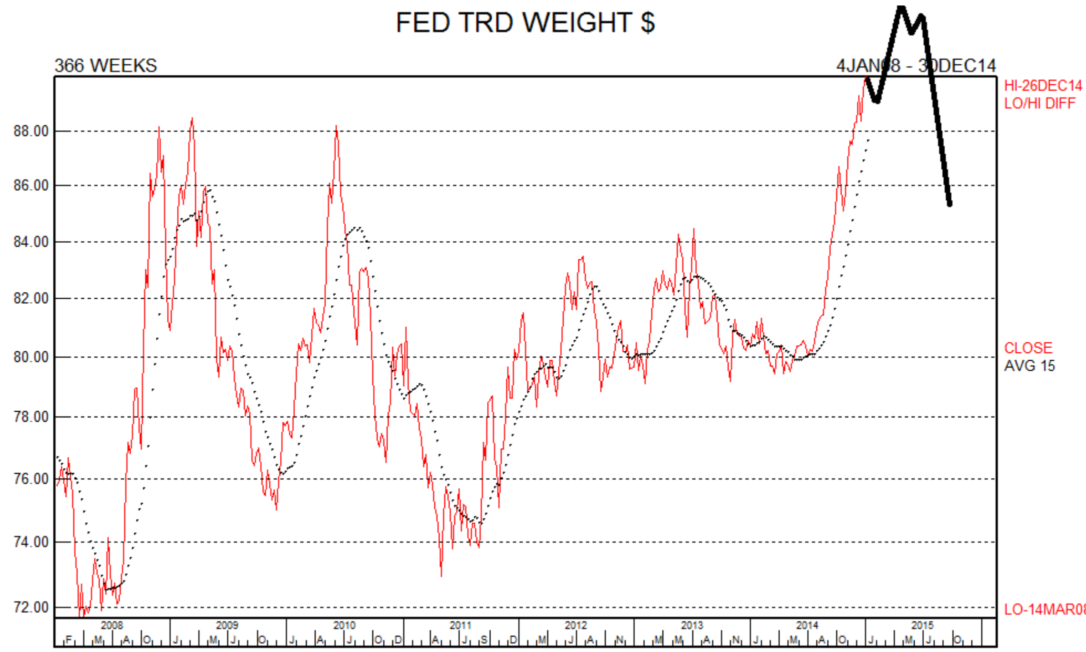
In December 2014, interest rate increases by the Federal Reserve were expected to happen in March and June of 2015 due to the "strong economy". After the June 2015 rate hike, analysts figured the FED would wait and see how the financial markets were handling the interest rate increases.

But, in reality, no such interest rate hikes has occurred. The "lift off" date has been pushed further out into the future as we progress through each month in 2015. (There have actually been rumours of QE4 floating around the markets this past week…FED voting member Kocherlakota made mention of the policy in a speech on Tuesday last week.)

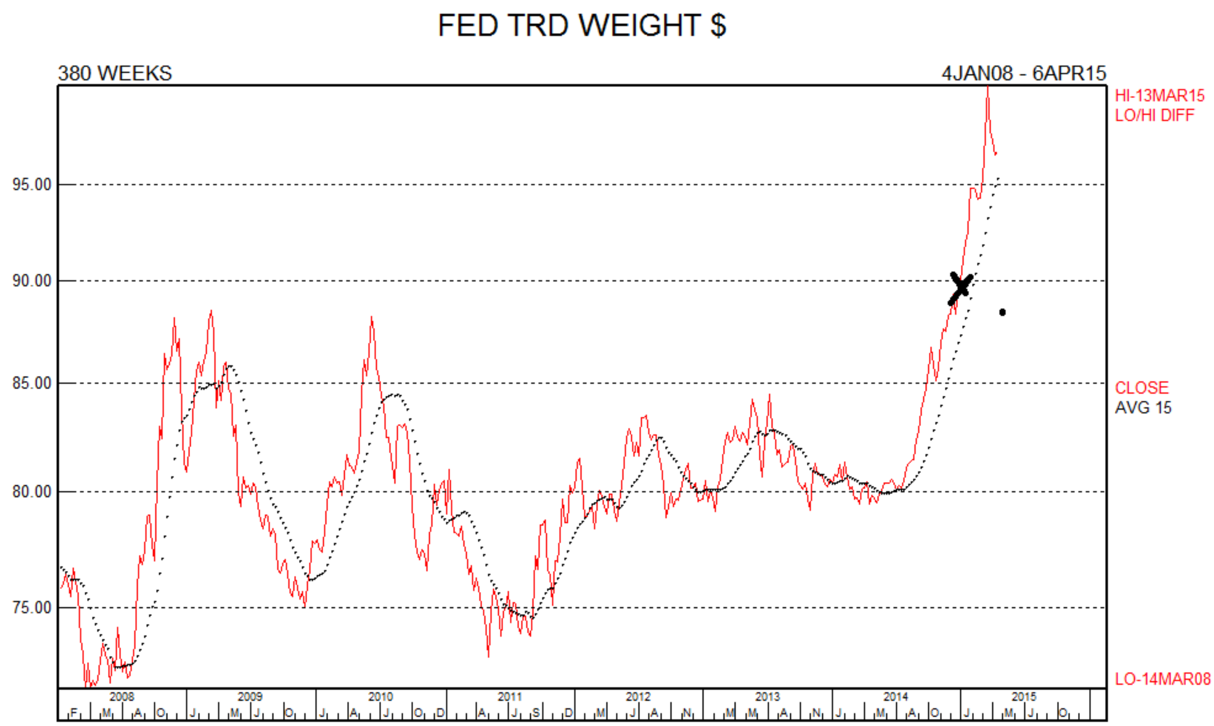
I'm not surprised by the change in forecast…I have never been a big believer in the US "recovery" story. But I never thought the FED would back down AGAIN from their intensions after being adamant about the need to raise interest rates late last year!

So let's look at how the FED policy shift affected what I was expecting in the first quarter of 2015.

The US dollar has behaved almost exactly as expected in the 2015 forecast. Below is the chart I included in my 2015 forecast. (Created in December 2014.)



Now, here is what actually happened. (“x” marks the beginning of 2015)



That forecast was pretty close to what happened. The US dollar index stayed on a tear to the upside until the FED backed away from its June 2015 interest rate hike intension.

This will be an important chart to keep a close watch on in coming months.

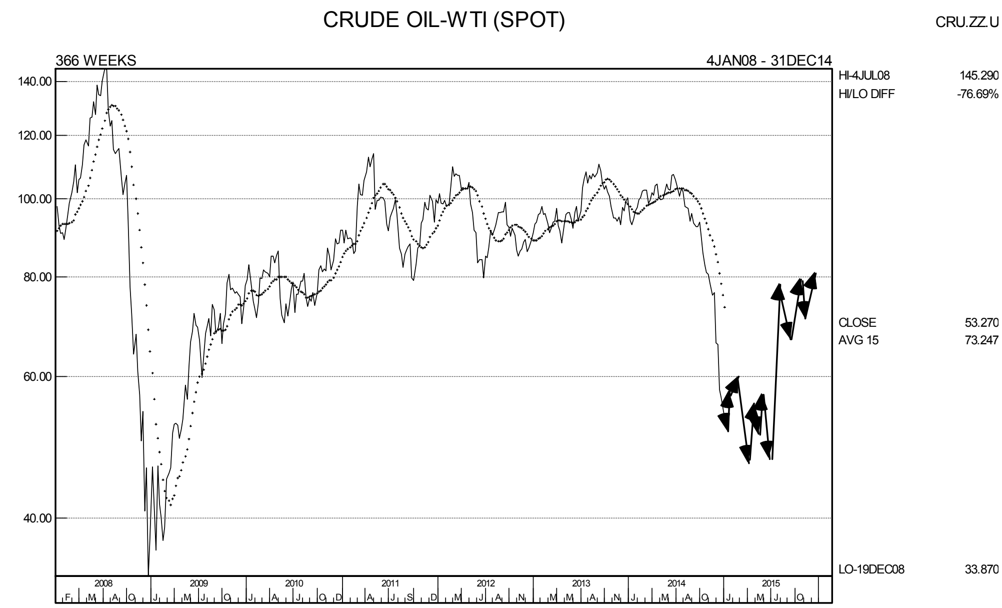
When it comes to the stock market I have a funny feeling my forecast is going to be exactly backwards from what the year is going to go like.

You see, based on the two interest rate increases investors anticipated the FED to do in March and June of 2015, I expected stocks to weaken as the economic data came in worse than expected at the same time as the interest hikes were happening.

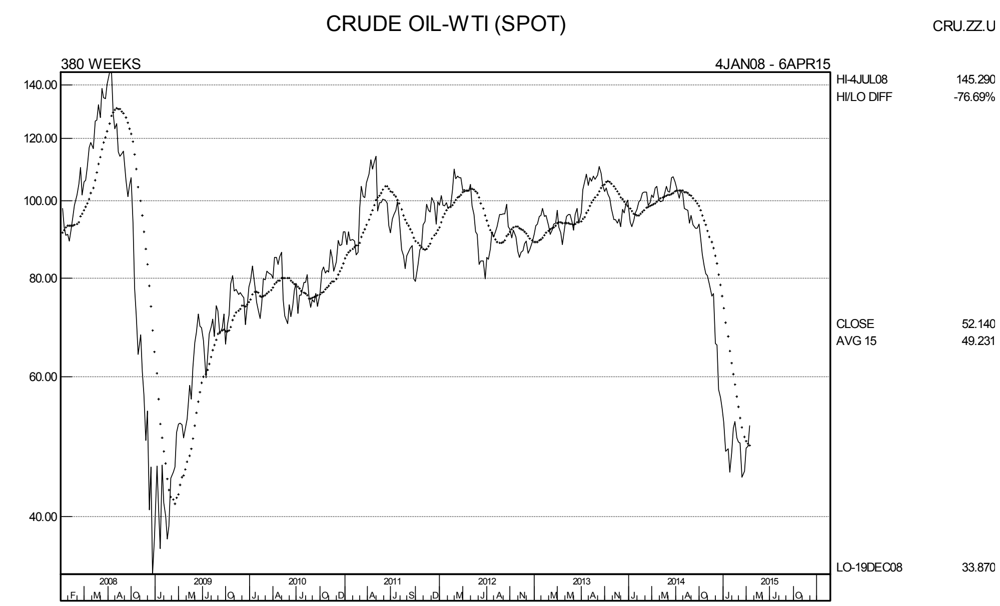
Well, the data came in weak (as expected) but the FED backed off the interest rate hikes and stocks maintained their “bid”. Below is the chart of what I was anticipating for 2015 and the chart of what actually happened.

Rather than a nicely defined "dip" down to the 12,000 level for the TSX over the first 5 months of 2015, followed by a sharp rally up to the 15,800 level, we see a meandering, sideways trend that likely ends up around the same place, but with none of the fun and excitement shown in the first chart!

The last part of the review I want to cover is "crude oil prices". This gets a little more interesting given the stance of the US FED. Below is the forecast for crude oil offered in the 2015 forecast:



…and now what actually took place.



On this chart, I would say "so far so good" with the forecast.

What will be really interesting is to see if now that the FED is cryptically talking about QE4, will oil prices spike up like I figured they would when the FED quit raising rates in the original forecast?

We will update the 2015 forecast again in July!

Looking to the Next Quarter

There are a number of data points suggesting we are nearing a global “panic” to buy assets. Stocks, bonds, and real estate are all disconnecting from economic reality…buyers are trying to “buy something with their cash.”

Seasonal investing tells us traditionally April is the high level for stocks until December in a given yearly cycle.

The old “buy when it snows and sell when it goes” adage would suggest we are near the highs for the year.

But I think the lead chart of Chinese stocks vs. Chinese GDP expectations quickly pours cold water on any thoughts of seasonal trends in this environment. I would not be surprised to see a sharp move higher in asset prices around the world in Q2 – 2015.

We will see!

One Last Thought for the Quarterly Update

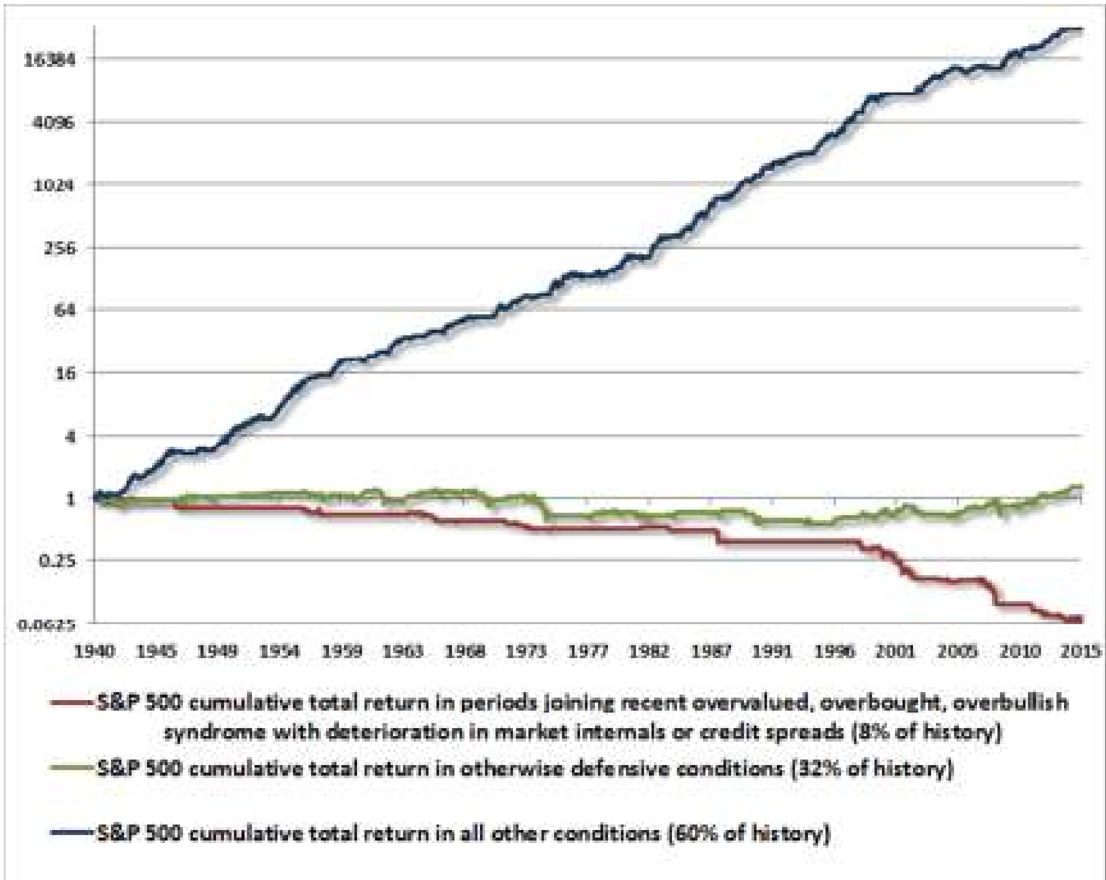
John Hussman (The Hussman Funds) is a quantitative analyst. This means he uses algorithmic (mathematical) measures to base his investment decisions. “Quants” are not given to “gut feel” when they make decisions.

The TEAM model stock selection process is Quantitative. This is the main reason I consider John Hussman an “Internet mentor” for me!

In his latest weekly update John Hussman created a long term chart defining the US stock market’s “personality”.

The stock market can be in one of three “moods” (to oversimplify Dr. Hussman):

- Investible (fairly valued)
- Defensive (fully valued)
- Overbought, Over-bullish (over valued)



The chart above shows the percentage of time the S&P 500 has been in the three states of valuation defined by John Hussman. It also shows the rates of return associated with the three states.

I will let you decide which condition above applies to the S&P 500 today!

About the author: Nick Foglietta is a Vice President, Investment Advisor at RBC Wealth Management in Nanaimo, B.C., Canada. He has been managing money since 1988.